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SUBJECT: SUPPLY OF ELECTRICAL POWER IN BELIZE

Summary

¶1. Belize Electricity Limited (BEL), whose major shareholder is Fortis Inc. of Canada, is Belize's primary distributor of electricity. Since the beginning of the year, regulatory conflicts with the Public Utilities Commission continue to dominate BEL's focus. More recently, a shortage of supply of electrical power from its major supplier (the Comisn Federal de Electricidad of Mexico) may put additional pressure on BEL's operations in the coming months. End Summary.

Belize Electricity Limited

¶2. Belize Electricity Limited (BEL) is the primary distributor of electricity in Belize. The company's shareholding is comprised of 70.2% held by Fortis Inc. of Canada, 26.9% by the Belize Social Security and the remaining interest is held by small shareholders.

¶3. The company has a customer base of approximately 74,200 accounts with a peak demand of 74 megawatts (MW). Its demand is met by multiple sources of energy that primarily include power purchases from Belize Electric Company Limited (BECOL), Hydro Maya Limited (HML), the Comisn Federal de Electricidad (CFE) which is a Mexican state-owned power company, and from its own diesel-fired and gas-turbine generation. All major load centers are connected to the country's national electricity system, which is interconnected with the Mexican National Grid, allowing the Company to optimize its power supply options.

Regulatory Conflicts

¶4. The Public Utilities Commission (PUC) is authorized under the Public Utilities Commission Act to serve as the economic regulator for the electricity, water and telecommunications sectors in Belize. Regulatory issues between BEL and the PUC have continued to dominate the former's focus into 2009.

¶5. In March 2008, BEL requested the Public Utilities Commission approve a 15% increase in electricity rates. The company's request was rejected by the PUC which cited its profits as a central reason for rejecting BEL's request for a rate increase. Since 2004, the company had profits exceeding Bz\$18 million (US\$9 million) which peaked at Bz\$29.9 million (US\$14.95 million) in 2007 with annual return on investment averaging between ten and twelve percent.

¶6. In April 2008, BEL again requested a 13% increase in electricity rates through the Annual Review Process (ARP) which was similarly rejected by the PUC in an ARP Final Decision of June 2008. The PUC's Final Decision, which was based on 350 comments from the public, input from PUC technical staff and an independent expert opinion, maintained the average tariff at \$0.441 per kWh but changed the Rate Setting Methodology. The PUC noted that an Agreement with the CFE would have allowed savings of BZ\$7.5 million annually.

¶7. In 2008, BEL went to court to challenge GOB's repeal of the 2007 Tariff Setting By-laws, the PUC's Final Decision, and the PUC's Rate Setting Methodology used to arrive at the Final Decision. Note: The By-laws refer to a Statutory Instrument (S.I.) which is a subsidiary law promulgated by the relevant Minister of Government. This particular SI was done by Melvin Hulse, Minister of Public Utilities, NEMO and Transportation. End Note.

¶8. In January 2009, the Supreme Court denied BEL's claim against the Government's repeal of the 2007 Tariff Setting Byelaws, but acknowledged that the Company's case is not without merit. In June 2009, the Court of Appeals (COA), the highest court in Belize, dismissed an appeal brought by BEL challenging the Supreme Court's decision which upheld the amendment to the 2007 Tariff Setting By-laws. The COA rejected BEL's argument that the repeal was unlawful since the company was not consulted prior to implementing the instrument. The legality of the repeal has now been confirmed by two courts.

¶9. In February 2009, the PUC amended its 2008 Final Decision in relation to the period January 1, 2009 to June 30, 2009. The amendment required a 15 percent reduction in electricity rates to be applied retroactively from January 1, 2009. This amendment was issued despite BEL's filing for an appeal to the Supreme Court in July 2008 to contest PUC's Final Decision. Nevertheless, the PUC justified the rate decrease in light of excess revenues collected by BEL which it claimed by law should be credited back to the consumer as a result of fall in the expected cost of oil during the latter part of 2008. BEL was subsequently granted an injunction on the decreased rates of electricity until the appeal of the PUC's June 2008 decision is heard. This case is expected to be heard by the Supreme Court at the end of July 2009.

¶10. In its most recent Annual General Meeting, BEL declared losses at the end of 2008 that amounted to Bz\$10.8 million (US\$5.4 million) as compared to a profit of Bz\$29.9 million (US\$14.95 million) in ¶2007. The Company claimed that this change of Bz\$40.7 million (US\$20.35 million) was as a result of the almost Bz\$20 million (US\$10 million) in excess power costs it was forced to absorb after failing to get approval for the rate increase.

Shortages in supply of electricity

¶11. Recent power shortages have come about as a result of Belize's continued reliance on the importation of power from Mexico. Last year, Mexico's CFE provided 53.6 per cent of Belize's total energy supply. In July, the PUC announced that Belizean consumers will be faced with shortages in the supply of electricity due to CFE shortfalls in power generation. Between July and August, the CFE will be undertaking repairs to its facilities which only allow it to supply 15% of Belize's energy demand, and that power will be at a higher price. Mexico is generally Belize's largest supplier, accounting on average for approximately 40% of Belize's total supply. In 2008 the power supplied from Mexico reached 53.6%. Dependence on supply from Mexico generally drops off a bit towards the latter part of the year during the rainy season when Belize's hydro facilities have more water.

¶12. To help mitigate the current CFE shortfall, an emergency agreement was reached between BEL and Belize Aquaculture Limited (BAL) to temporarily supply up to eight megawatts additional power from BAL's generation facility. BEL is currently taking 16 MW of power from Belize Aquaculture Limited and 32.5 Megawatts from its sister company, BECOL.

DIFFILY